

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

In the Matter of)

PUBLIC UTILITIES COMMISSION)

Docket No. 2008-0274

Instituting a Proceeding to Investigate)
Implementing a Decoupling Mechanism)
for Hawaiian Electric Company, Inc., and)
Hawaii Electric Light Company, Inc., and)
Maui Electric Company, Limited.)
_____)

HAIKU DESIGN AND ANALYSIS

RESPONSES TO INFORMATION REQUESTS FROM THE HAWAIIAN ELECTRIC

COMPANIES AND THE DIVISION OF CONSUMER ADVOCACY

AND

CERTIFICATE OF SERVICE

PUBLIC UTILITIES
COMMISSION

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RESPONSES TO INFORMATION REQUESTS FROM THE HAWAIIAN ELECTRIC

COMPANIES AND THE DIVISION OF CONSUMER ADVOCACY

Carl Freedman, dba Haiku Design and Analysis (HDA) respectfully offers the following responses (HDA Responses) to the information requests posed to HDA by the Hawaiian Electric Companies (HECO) and the Division of Consumer Advocacy (DCA).

HECO/HDA-IR-1

On page 7 of its Opening Statement of Position, HDA states: “HDA argues here... that it is time to retire the ECAC mechanism and replace it with a straight full cost pass through.” The ECAC mechanism includes an efficiency factor which serves as an incentive to the utility to improve the efficiency at which it converts fuel into electricity. Why would the elimination of the ECAC efficiency incentive be a benefit to ratepayers?

Response:

As explained in HDA’s Statement of Position (SOP), changing the ECAC to a full cost pass through will not change HECO’s current practices to dispatch its generation resources economically. If necessary the Commission could require economic dispatch. This would be simple to verify. Please see the HDA SOP.

Furthermore, as explained in HDA’s SOP, changing the ECAC to a full cost pass through would eliminate current disincentives for HECO to optimize operation reserve to accommodate fluctuating as-available renewable resources. This could increase operation costs but is a necessary measure to incorporate renewable generation into the HECO companies’ systems and provides the benefits to ratepayers associated with increased use of renewable generation.

HECO/HDA-IR-2

On page 4 of its Opening Statement of Position, HDA states: “Although the purpose and justification of the proposed RAM is framed as a necessary element to support the objectives of the HCEI and October 2008 Agreement (to encourage energy efficiency and renewable generation) there are no provisions to provide incentives or ensure that the HECO Companies will diligently implement these objectives.”

Please see the HECO Companies’ and Consumer Advocate’s Joint Decoupling Proposal, page 1, “The purpose of the Revenue Adjustment Mechanism is to adjust revenues decoupled from sales to reflect changes in revenue requirements between rate cases, which should help maintain the utility’s financial integrity and ability to invest in the infrastructure necessary to meet Hawaii’s 70% clean energy objective, while maintaining reliable service to customers.”

Would HDA agree that a legitimate purpose of the RAM is to help maintain the utility’s financial integrity in preparation for infrastructure investments to meet Hawaii’s 70% clean energy objective? Why or why not?

Response:

HAD agrees that a purpose of the RAM is to enhance HECO’s financial integrity but does not yet take a position on whether this is legitimate, necessary or appropriate for HECO to meet the HCEI objectives.

HECO/HDA-IR-3

On page 6, HDA states in the second paragraph: "... HDA is examining the interaction between the ECAC and HECO's proposed decoupling mechanism."

Has HDA conducted further examination of the interaction between HECO's ECAC and the HECO proposed decoupling mechanism? Please state your conclusions with supporting documentation and analyses.

Response:

Yes, HDA has conducted further investigation of the interaction between the ECAC and the HECO proposed decoupling mechanism but has not reached a final conclusion or completed any supporting documentation and analysis. HDA has had several telephone conversations with HECO staff to clarify the implementation of the existing ECAC and quarterly and annual reconciliations to determine to what extent the differences between average and short run marginal fuel expenses are accounted for in the ECAC.

Based on discussions with HECO, it appears (without completion of any rigorous analysis) that the ECAC, in conjunction with the quarterly and annual reconciliations, does account for part but not all of the difference between actual and test year average fuel and purchased power expenses that result from changes in sales volumes. If time permits, HDA intends to determine the magnitude any discrepancies and would like to continue this discussion at the upcoming technical workshop with the parties.

HECO/HDA-IR-4

The term “utility earnings” is employed in several instances. Does the term refer to utility net income, the margin difference between revenues and fuel and purchased energy costs, or some other concept?

Response:

The term “utility earnings” is used to distinguish decoupling total revenues from decoupling net revenues (revenues with variable expenses netted out). The intent is to distinguish “revenue decoupling” from “earnings decoupling” as explained in the text and examples on this subject in the NRRI scoping paper in this docket.

HDA notes that HECO often refers to its decoupling proposal as a revenue decoupling proposal. HDA would assert that both the HDA and HECO decoupling proposals are earnings decoupling proposals since the target revenues are the fixed component of revenues after variable costs are netted out. The term “utility earnings” refers to the direct correlation between recovery of these net utility revenues and the utility’s net income and earnings.

HECO/HDA-IR-5

Reference the HDA Example Mechanism. Would HDA agree that employing an estimate or calculation of marginal energy cost per kWh applied to the change in kWh sales may actually overstate or understate the actual total dollar change in energy cost related to the change in kWh sales?

Response:

Yes, in two respects. First, in the most general sense, estimates are estimates and may over or under state quantities. Second, the HDA Example Mechanism, as originally proposed, does not properly account for the ECAC quarterly and annual reconciliation adjustments. Neither the HDA Example Mechanism nor the HECO proposed mechanism as formulated at this time properly account for the "actual dollar change in energy cost related to the change in kWh sales."

CA/HDA-IR-1

In its March 30 Initial Statement of Position at page 7, HDA recommends, "...that it is time to retire the ECAC mechanism and replace it with a straight full cost pass through." Please describe each of the studies/analyses that have been performed by or for the HDA to evaluate modifications to the ECAC, indicating the dates each study/analysis was undertaken and the persons who performed such work and provide complete copies of all calculations, spreadsheet files, workpapers, surveys and other documents associated with each of the efforts relevant to each identified studies/analyses.

Response:

See response to HECO/HDA-IR-1. HDA has not completed its studies and analyses and hopes to work with HECO and the DCA and other parties at the upcoming technical workshop to explore this issue. HDA can provide the parties with documentation of its analyses promptly upon completion and will provide documentation for the evidentiary record in its final statement of position filing.

CA/HDA-IR-2

Please explain the extent to which the HDA believes that eliminating the performance incentives currently built into the ECAC is justified in light of the size of perceived benefits to implementation of renewable deployment and provide all available quantification of the tradeoffs between elimination of the performance incentives in terms of potential HECO customer impacts in addition to providing complete copies of all studies, reports, analyses, projections and other information relied upon in support of your response to this information request.

Response:

See response to HECO/HDA-IR-1. HDA has not completed its studies and analyses and hopes to work with HECO and the DCA and other parties at the upcoming technical workshop to explore this issue. HDA can provide the parties with documentation of its analyses promptly upon completion and will provide documentation for the evidentiary record in its final statement of position filing.

CA/HDA-IR-3

To the extent not provided in response to CA/HDA-IR-1 and CA/HDA-IR-2, above, please provide complete copies of all other calculations, spreadsheet files, workpapers, surveys, documentation and other analyses supporting the conclusions and recommendations stated in your Initial Statement of Position.

Response:

See response to HECO/HDA-IR-1. HDA has not completed its studies and analyses and hopes to work with HECO and the DCA and other parties at the upcoming technical workshop to explore this issue. HDA can provide the parties with documentation of its analyses promptly upon completion and will provide documentation for the evidentiary record in its final statement of position filing.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the foregoing RESPONSES TO INFORMATION REQUESTS FROM THE HAWAIIAN ELECTRIC COMPANIES AND THE DIVISION OF CONSUMER ADVOCACY upon the following entities, by first class mail or by electronic transmission as noted:

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Dated: April 15, 2009; Haiku, Hawaii

Signed: CARL FREEDMAN
Carl Freedman